

Service Date: March 5, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER OF the Application) UTILITY DIVISION  
of Mountain Water Company for )  
Authority to Increase Rates and ) DOCKET NO. 86.9.51  
Charges for Water Service in the)  
Missoula, Montana service area. ) ORDER NO. 5252a

ORDER ADOPTING STIPULATION

1. On December 16, 1986, Mountain Water Company and Montana Consumer Counsel entered into a stipulation that, for purposes of this rate case, a reasonable cost of equity would be 13 percent and a reasonable hypothetical capital structure would be split 50-50 between debt and equity. On January 26, 1987, the Mountain Water Company moved the Commission for an order adopting this stipulation. Before the Commission will accept a stipulation disposing of a contested issue in a rate case it requires, 1) that the parties to the stipulation provide sufficient information for the Commission to conclude that the stipulation is reasonable, and 2) that all parties have the opportunity to comment on stipulation. In this instance the Commission did not find that either the stipulation or Mountain Water Company's brief in support of its motion to adopt the stipulation provided sufficient information for the Commission to conclude that the stipulation is reasonable. Further, the Commission wanted to be certain that the City of Missoula and Montana Peoples Action, two parties to this rate case who are not parties to the stipulation, had every opportunity to state their position with respect to the stipulation.

2. Therefore, the Commission requested that an informal meeting be scheduled, to be noticed to all parties and all media outlets in Missoula, for the purpose of providing the Commission with additional background and information on the stipulation and receiving comments from all parties. A meeting was noticed and was held on February 19, 1987, in the Commission conference room in Helena. Representatives of Mountain Water Company, Montana Consumer Counsel, and the City of Missoula were present at the meeting; Montana Peoples Action was not represented.

3. At the meeting the representative of Mountain Water Company reminded the Commission that in its initial application the Company had requested a 13.5 percent return on equity; however, in the course of negotiation the Company agreed to reduce that request to 13 percent, even though it believed 13.5 percent was and is a reasonable and justifiable figure. Both the Company and the Consumer Counsel emphasized that hiring expert witnesses to justify their respective positions on the cost of capital is expensive; the total cost for such witnesses for both the Company and Consumer Counsel could be as high as \$40,000. The cost to the Company is ultimately born by the ratepayer. The Company and the Consumer Counsel explained, and Commission staff concurred, that it would be unlikely that the benefit to ratepayers from hiring cost of capital experts would outweigh the cost. Further, it was noted that a 13 percent cost of equity is well within the range of returns recently authorized by the Commission for other utilities under its jurisdiction.

4. With respect to the stipulation on capital structure, the Commission finds that in its original application the Mountain Water Company presented a capital structure of 66.75 percent equity and 33.25 percent debt. This mix is equity

rich and the Commission agrees that the 50-50 debt equity ratio stipulated to by the Company and the Consumer Counsel is preferable and compares favorably with other regulated utilities.

5. Following the explanation of the basis for the stipulation by the Company and Consumer Counsel, and after hearing comments from the City of Missoula, the Commission was convinced that the stipulation is reasonable. On February 23, 1987, at a regularly scheduled agenda meeting the Commission directed staff to prepare an order adopting the stipulation.

#### CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Section 69-3-102, MCA.

2. The Commission afforded all parties to this proceeding notice and the opportunity to participate. The Commission acted at all times in conformance with its rule on voluntary settlement. ARM 38.2.3001.

3. The stipulation adopted herein is declared to be reasonable, just and proper.

#### ORDER

NOW THEREFORE IT IS ORDERED that the stipulation entered into between Mountain Water Company and Montana Consumer Counsel on December 16, 1986, setting the cost of equity capital for Mountain Water Company in this case at 13 percent, and

establishing a reasonable hypothetical capital structure in this case at 50 percent debt and 50 percent equity, is adopted.

FURTHER IT IS ORDERED that cost of equity capital and hypothetical capital structure will henceforth not be contested issues in this docket.

Done and Dated this 2nd day of March, 1987 by a vote of 4- 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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JOHN B. DRISCOLL, Commissioner

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HOWARD L. ELLIS, Commissioner

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TOM MONAHAN, Commissioner

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DANNY OBERG, Commissioner

ATTEST:

Ann Purcell  
Acting Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.